

## OUR BUSINESS

# MARKET & CUSTOMER INSIGHTS

Our actions are driven by listening to our customers and analysing the market to build a rich and robust picture of our customers' shopping habits and outlooks. **Everything we do as a company is filtered through the lens of what we know about our customers** and every decision starts with them.

### UNDERSTANDING OUR CUSTOMERS

Our Customer Insight Unit (CIU) gathers feedback through a number of different channels, including store exit surveys, online surveys and reviews, till surveys, the Customer Contact Centre and focus groups, to build a comprehensive picture of what our customers want from M&S. This year, we carried out over 700,000 customer interviews, either in person or through online surveys. Within CIU, we have created a centralised data analytics team to ensure we have a single accurate view of our customers. Through anonymised data analysis, we can better understand how our customers are shopping with us by examining purchasing behaviours and patterns both in our stores and online. By understanding how our customers choose to spend their money and time at M&S, we can ensure we are always working to deliver the products and shopping experience they want.

Our Consumer Barometer gives us a regular snapshot of how consumers are feeling about their household finances and the economy in general. Every month we talk to 70,000 M&S customers across our key customer groups, as well as those who don't shop with us regularly, to take the nation's pulse.

We overlay this insight with external market data, such as weather patterns, travel time to our stores, local footfall data and the competitor environment, to build a solid understanding of our customers and our position in the overall retail landscape.

But gathering this crucial data is only half of the equation – it's how we use it to put our customers centre stage that's important. By carefully analysing all the information that we have, we can ensure we are in touch with consumer attitudes and lifestyles. The data allows us to identify patterns and groups of customers. By understanding these groups in detail, we can build our strategies from the customer upwards rather than from the boardroom downwards.

In short, the information allows us to do a better job for our most important stakeholders – the people who shop with us – so that we are more relevant, more often. By understanding and knowing our customers through careful and detailed data analysis, we can put customers right at the heart of everything we do.

### WHAT CUSTOMERS ARE TELLING US

After holding up reasonably well over Christmas, consumer confidence in general dipped in the early months of 2017. People started to feel a little less certain about the wider economic outlook due to concern around issues such as rising inflation, the falling pound and uncertainty as a result of the UK's decision to leave the European Union.

When asked about their future spending intentions, all consumers – rather than M&S customers in particular – said they were likely to trim back their discretionary spending in the months ahead due to these economic concerns. They also said they were more likely than before to put their money into experiences and events, such as trips to the cinema, gym membership or meals out, rather than into buying consumer goods on the high street. Net optimism, a measure of how positive people are feeling, increased by 5% over the year. In terms of their biggest concerns in the immediate future, people cited rising food prices, worries about the Brexit negotiations and geopolitical uncertainty following the American presidential election last November.

But despite all this, consumer confidence is still relatively high compared with the period between 2008 and 2013, when it suffered a prolonged slump due to the credit crisis.

More of our food shoppers say that they would recommend us to family and friends. Our Net Promoter Score (NPS), which measures customers' willingness to recommend M&S, in Food is up four points. In Clothing & Home, while overall NPS was

broadly level, we saw an improvement in ratings from our most frequent customers and in our larger stores, so we know customers are noticing the difference. Although our Clothing & Home business is still recovering, customers can see we are doing the right things. Customers find M&S.com easy to navigate and customer satisfaction has significantly improved over the last year.

### HOW WE USE OUR INSIGHTS

The information we gather gives us a crucial insight into the context in which we're trading. Our insights mean nothing unless we act on them. We share the information with all our business units and use the results to help us inform our business decisions.

From product development and design, to the content we put on our website, to our online delivery proposition – they are all guided by what our customers tell us.

This year there were many examples of how we took insights from our CIU and used them to improve our customers' experience, for example:

- We changed the layout of our clothing departments because of customer feedback that our stores were sometimes confusing to shop in. Until this year, we organised Womenswear by sub-brand, such as per una or Limited Edition. But this led to a fragmented shopping experience and product duplication where sub-brands had similar garments. Our stores now have clear product departments, with the key products for the season brought together at the front of the store, leading to a more intuitive shopping experience.
- We have used our insights to increase levels of personalisation for our 5.6m Sparks members who now receive tailored offers based on their interests and shopping habits. We invite them to special Sparks events and experiences, such as wine tastings or fashion shows, depending on

how many Sparks they have and what we know they are passionate about. We are also being more targeted in our email communications by sending customers updates specifically related to their local store and area so they only get the information that is most relevant to them.

- We used quantitative data from 7,000 customers to guide our investment in improving service in our stores. This research told us customers wanted to see more Customer Assistants in our stores. We responded by putting over 3,000 more colleagues into the departments where our customers told us they value service most, including Fitting Rooms, Bra Fit, Men's Suits and Footwear.
- We showcase our clothing collections to the fashion press twice a year – Autumn/Winter in May and Spring/Summer in November – so our customers get to see some of what's coming next season. This year, we responded to feedback that customers increasingly want to buy into new season trends as soon as they see them with 'See Now Buy Now' capsule collections, enabling customers to shop key pieces from the new season straight away.
- The Clothing & Home research panel we use for product development has a customer interaction every five seconds through our dedicated panel of around 231,000 customers. With this we gain invaluable feedback on new products during design development, so we can increase the buys on customer favourites and eliminate products that score less well at the concept stage, ensuring we are shaping collections that most resonate with our customers.
- For this year's Christmas campaign, we listened to thousands of customers to understand what they want to see from M&S at Christmas. The feedback we gathered said they wanted us to own Christmas in the traditional sense, but in a way that was surprising and different. So we created the Christmas with Love campaign starring the often unsung hero of Christmas, Mrs Claus, who epitomised the huge efforts our customers put in to making the festive season special.

This is just the beginning. The next few years present exciting opportunities. For example, since the launch of Sparks in 2015, nearly 1.5m people have downloaded our M&S app. This combination of technology and loyalty is powerful. It brings us closer to our customers and will allow us to further enrich our proposition. It will allow us to increase customer engagement. And it will allow us to drive frequency of purchase across channels and categories.

Smart use of data can boost sales and therefore create value for everyone: our customers, our employees and, ultimately, our shareholders.

M&S TODAY

32m

NUMBER OF CUSTOMERS



CLOTHING & HOME CUSTOMERS



8.3m

WEBSITE VISITS PER WEEK

38%

OF OUR CUSTOMERS ARE MALE

62%

OF OUR CUSTOMERS ARE FEMALE

40%

FOOD CUSTOMERS SHOP 'FOR TONIGHT'

40%

OF CUSTOMERS SHOP FOR BOTH CLOTHING & HOME AND FOOD

52%

OF ONLINE ORDERS ARE MADE THROUGH TABLET AND MOBILE



23%

OF CUSTOMERS UNDER 35



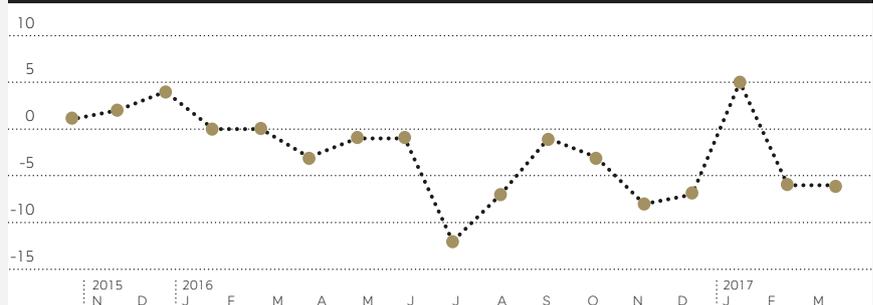
UK FOOD MARKETPLACE

We face stiff competition across the UK food sector with rising inflation, recovery among the main four supermarkets and the continued growth of the discounters. Food retailers and suppliers also face cost headwinds due to rising raw material prices and the depreciation of sterling. However, through listening to our customers and monitoring the market, we keep on top of changing shopping habits. Consumers remain as savvy as ever and relish innovation. They are also doing smaller 'convenience' shops. These trends play to our strengths.

UK CLOTHING MARKETPLACE

The market remains highly competitive, with retailers facing cost pressures due to increasing commodity prices and the impact of the fall in sterling. At the same time, households are managing their finances carefully due to fears of inflation and political uncertainty. Customers still love treating themselves, but consumer confidence dipped in the early months of 2017. Spending on clothing is also coming under pressure as consumers spend more on experiences and retailers are vying with cinemas and restaurants for spend. However, we believe we can attract consumers by focusing on offering high quality, stylish products that are competitively priced.

CONSUMER CONFIDENCE INDEX



Source: GfK